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Market Development Reports

"A" is for Apple and "C" is for China

... a view from the south

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Report Highlights:

Why is South China so important for U.S. apples? First, it's home to the it's home to the biggest imported fruit wholesaler in China where trucks leave, laden with fruit to the rest of China. Second, its ports draw in most of the imported apples that hail from overseas. Third, Cantonese are crazy about fruits. U.S. Red Delicious is available year 'round in retail stores, in family-owned fruit stalls and from peddlers on tricycles. Imported American Galas and Granny Smiths are popular, but the U.S. is constrained to officially export only Red and Golden Delicious from Pacific Northwest states although other varieties enter via grey channels. Increased market access for American apples is linked to China's market access for fresh pears and maintenance of market promotion. The Chinese Fuji is a fierce competitor.

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Table of Contents

A look at the world apple market	3
Why South China plays a pivotal role in China's apple trade	3
What South Chinese like about imported apples	5
Who the competitors are	7
Where apples are sold	10
How U.S. apples are marketed and promoted	11
Conclusion.....	13
Other related GAIN reports.....	14
Appendix	15

A look at the world apple market

China is a big producer, but also imports high value, fresh apples

Apples account for just about half the world's deciduous fruit tree production. China is a leading apple producer and exported US\$698.7 million fresh apples to the world (mostly to Russia and many Asian countries such as Indonesia, Thailand, Philippines and Vietnam); However, according to *China Customs*, in 2008, it imported US\$ 44.6 million worth of fresh apples from all sources, up 30.3 percent from the previous calendar year.

These apples hail mainly from Chile and the United States. U.S. apples occupied 38.9 percent, while Chile took the lead with 45.6 percent market share. New Zealand is the third biggest fresh apple exporter to China, followed by Japan.

The data may not reflect the whole market situation. According to industry insiders, direct shipments of Washington apples to China only account for 40 percent of total imports of Washington apples into China. The rest (Washington Gala, Granny Smith and early season Red Delicious), due to a 45-day cold treatment requirement, are transshipped from Hong Kong. Taking this into account, U.S. apples should have more market share than Chilean apples in China's imported fruit market.

China consumes U.S. apples in the South (Guangzhou, Shenzhen, Guangdong, Foshan, Zhongshan, Changsha, Xiamen and Fuzhou), the North (Beijing, Qingdao, Dalian, Shenyang, Changchun, Harbin,) and the East (Shanghai and major cities in Jiangsu and Zhejiang Provinces coastal areas) This report focuses on the view from the Pearl River Delta because of its strategic importance.



Red Delicious from Washington State arrives in Guangzhou's Jiangnan Fruit Wholesale Market
(Source: ATO Guangzhou)

Why South China plays a pivotal role in China's apple trade

For the past two decades, South China has been the hub for fruit imports. In recent years, direct shipment to mainland ports has increased, but insiders still believe significant amounts enter via grey channels through Hong Kong where they are marketed locally or barged in containers to South China ports and loaded onto trucks headed to the *Jiangnan Fruit and Vegetable Wholesale Market* in Guangzhou, South China. From there, apples are trucked to the rest of China.

Apple imports through South China ports reached US\$ 32.2 million in 2008 which accounted for 72 percent of total imports to China. Improved infrastructure and growing numbers of retail outlets have extended distribution networks for apples in South China.

Table 1. Total imports to China via South China ports

	2005	2006	2007	2008
Value (US\$ millions)	19.35	16.60	24.14	32.22
Quantity (metric tons)	25,053	20,511	26,271	31,190

(Source: China Customs)

In 2008, according to *China Customs*, South China imported US\$17.7 million worth of fresh apples from Chile, US\$ 9.8 million from the States and US\$ 4.5 million from New Zealand.

In 2008, 96.6 percent of China's total fresh apple imports from New Zealand landed in ports in the South: about half came in through Shantou, 45 percent from Guangzhou and rest from Shenzhen. Shanghai and Beijing only represent a fraction of total imports.

In addition, 86 percent of China's total fresh apple import from Chile entered the South, 8.5 percent in the north and 4.5 percent in Shanghai.



At a fruit stall in Guangzhou
(Source: ATO Guangzhou)

Some 56.6 percent of China's total fresh apple imports from United States came through South China, 30 percent from the north and 12.4 percent from the east.

Apple consumption continues to rise with increased incomes, especially in urban areas. Guangzhou and Shenzhen are key markets in South China.

There are a number of emerging South China markets including Dongguan, Foshan, Xiamen, Fuzhou and Nanning. They have promising potential for imported apples, although further market development is needed and likely to be extended there.

Domestic supply floods the market. Chinese apples, mostly from the north (Shandong and Shaanxi) dominate mass market, and the Fuji is the favorite for many southern consumers. Chinese apples, mostly Fuji, are available throughout the year and sold at less than half U.S. apple prices. Overall fruit quality is

expected to improve as farmers plunk down more farming inputs to coax high yields.

Demand for imported apples grows. Apples, mostly from Chile and the United States, hold high end niches in wealthy areas. There is also increasing demand for apples from New Zealand and Japan.

Development of the fruit distribution system in China, especially the cold transport system, has not yet kept pace with ever growing fruit imports. Most cold storage facilities in cities other than Guangzhou and Shenzhen are small and in poor condition.

The sight of perishable high-priced fruit placed outside temperature-controlled areas point to lack of awareness or lack of cold storage all along the supply chain - from importers to wholesalers and retailers. This is why traders sometimes complain about losing money.

Limits in the cold chain system have led to significant losses for both domestic and imported apples. It can affect the quality of imported U.S. apples before delivery to consumers. As a

result, shortage of cold storage facilities and management expertise restricts expansion of U.S. fruits from principle city markets to smaller cities. However, in recent years South China has progressed.



*Bird's eye view of imported fruit from ThreeSixty, Hong Kong's biggest retailer for organic fruit
(Source: ATO Hong Kong)*

Another challenge is tightening inspection in recent years, which also limits apple imports. Consumers do not care much about where fruits come from and those that do often aren't informed enough to tell the difference. This prohibits further success of U.S. fruit, especially in emerging city markets where consumers have limited experience with imported products. Improving the quality of local fruit and availability of a wider variety of imported fruit limits sales of U.S. fruit. Washington *Red Delicious* apples are usually labeled in retail chains so consumers are well informed. As the U.S. cannot officially export *Washington Gala* and *Granny Smith* apples to China directly, retail chains tend to be cautious and do not label Washington

Gala and Granny Smith apples. Thus, consumers may not be able to differentiate Washington Gala and Granny Smith apples from Southern hemisphere Gala and Granny Smith apples.

In addition, the Chinese *Huaniu* apple that closely resembles U.S. Red Delicious makes it easy for Chinese-grown fruits to assume an American identity through counterfeit labeling.

What South Chinese like about imported apples

South China is at the forefront of the nation's rush towards a developed market economy where residents enjoy above average incomes. Its rising middle-class can afford imported fruits, known for high quality with health and food safety reasons attributes.

Guangzhou and Shenzhen consume the most imported apples in South China. Since one child families are the norm, parents will do anything to provide the best for their prized child. As a result, target consumers for apples are:

1. Health-conscious young parents
2. Organizations
3. Individuals with mid- to high- level incomes
4. Individuals concerned with lifestyle

Consumers expect retailers to carry different kinds of apples from various overseas sources.

South China consumers tend to follow consumption patterns from Hong Kong, Macau and other Southeast Asian countries. Japan and Taiwan, for example, have a big influence on South China, particularly Hong Kong and Macau.



*Traditional fruit basket in South China
(Source: ATO Guangzhou)*

Hong Kong has a well-developed apple distribution network. Increasingly organic varieties are found in shops that specialize in organic and natural products such as *City Super* and *ThreeSixty*. Imported organic apples from the United States, Italy, New Zealand and Australia packed in small transparent packages attract small families and individuals.

1. Color, aroma, taste, firmness, crunch, price

In general, South China consumers prefer apples that are juicy, crunchy, firm and mildly sweet, at a Brix valued 11 to 14 degrees. Shiny color and medium-sized apples are favorites, like the Fuji variety. Retailers prefer to use waterfall displays to grab attention.

Consumers also like the larger red delicious from Washington State, with its elongated shape, dark red hue and pronounced dimples. This variety is ideal for gift-giving, but isn't purchased as an everyday item for most people. A prime Washington Red Delicious can cost twice as much as a Chinese Fuji for the general public. However, when comparing top quality Chinese Fuji apples from Northern China and adding shipping costs, they are not that much cheaper than Washington apples.

South Chinese urban consumers scrutinize fruit characteristics and presentation such as look, flavor, safety and nutrition; however, price is still important to most.

Chinese use all senses when selecting fruit. For example, with apples, they will check for firmness, color, appearance and fragrance. They listen to the crunch when their teeth sink in. They will judge if the price is reasonable or too high. For domestic apples, taking Fuji Grade A for example, retail prices should not be higher than US\$1.00 per 500 grams (one lb.) and not higher than US\$0.58 per 500 grams for lower grades. In contrast, Southern consumers accept imported apples at higher prices ranging from US\$1.40 to US\$2.20 per 500 grams.

2. Family enjoyment and convenience

South China families not only enjoy eating but in eating fresh. It's usually the female head of household who shops daily for fresh fruits and foods. Sometimes, after dinner, the family strolls to nearby fresh stalls.

High-end retailers such as *Olé* and *Sam's Club* like to use popular, small prepackaged bags of apples.

3. Gift giving

Traditionally, the best apples are given during holidays and special occasions. In Cantonese, the word for apple (*ping guo*) is similar to the word for peace (*ping an*). The older generation encourages relatives to eat apples and tell friends to bring apples when traveling. Friends and family present apples to wish patients well.

During special occasions such as *Spring Festival* (also known as the *lunar new year*) and *mid-Autumn Festival* in September (also known as the *Moon Festival*), for example, people give apples when visiting friends, nicely packaged in a decorative gift boxes made of paper or wood or gift basket with Chinese symbols for "good luck." Retailers may sell privately labeled gift boxes. To the Chinese, "eight" and "six" are lucky numbers so retailers



Gift boxes for Red Delicious in Zhuhai. Prices double as lucky numbers.

(Source: ATO Guangzhou)

make sure prices cleverly include either of these two. Red Delicious apples, prized for its lucky red color, used to be the most popular variety for gift-giving. However, consumers have shifted to Gala and Granny Smith's which are gaining ground in South China.

4. Health and lifestyle attitudes

Traditional Chinese believe eating apples promotes health. Apples are rich in nutrition, easily digested and absorbed and an excellent source of fiber. Fiber helps sustain blood sugar levels; promote digestion; helps lower blood cholesterol levels and reduce risk of heart disease and certain types of cancer. A large sized apple contains only 130 calories. Natural sugars in apples are slowly released into the bloodstream. That's why they are a good source of healthy carbohydrates and may be consumed by diabetics.

Consumer demand for high quality fruit has increased in major consumption areas such as Guangzhou and Shenzhen. There is a growing trend of health conscious consumers who pay premium prices out of concern for food safety. They go for different varieties and colors.

Chinese people prefer to peel the skin when eating apples for fear of excessive pesticide residues used in China. However, it is a good idea to eat apples with skin. Almost half of the vitamin C is underneath the skin. Eating the skin also increases insoluble fiber content. Most of an apple's fragrance cells are also concentrated in the skin. As they ripen, skin cells develop more aroma and flavor.

Since retailers and media promote U.S. apples along the themes of food safety and wholesomeness, eating and enjoying them with skin on is a good selling point. Thus, Washington state joined forces with the U.S. Department of Agriculture's (USDA) Agricultural Marketing Service, as well as other states, to adopt and offer the USDA's Good Agricultural/Good Handling Practices audit program to Washington state growers, producers and shippers, a voluntary, audit-based program that verifies conformance to generally recognized good agricultural practices and good handling practices as outlined in the Food and Drug Administration's Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables.



Many Chinese consumers are already aware of "green food," that is, food grown under controlled conditions that limit use of pesticides and fertilizers. Affluent consumers are willing to try organic apples.

Who the competitors are

1. U.S. origin - Washington apple varieties in South China

Officially only *Red Delicious* and *Golden Delicious* from the Pacific Northwest States (Washington, Oregon and Idaho) are allowed access into China. There is limited demand Golden Delicious, and its Chinese equivalent known as *Huang Jiao* which looks similar is also

not popular. The *Washington Apple Commission* looks favorably for Chinese access of all imported apple varieties.

There are growing imports of *Granny Smith's* and *Gala's* from Washington State that enter South China via Hong Kong through grey channels.

U.S. apples in China are mostly from Washington State, known worldwide for their beauty and crunchiness. Central Washington's hot summer days and cold nights create an intense dark red. With the distinctive red, white and blue labels, Washington apples show up in family owned fruit stalls dotting the city and in giant hypermarkets. In China, all U.S. apples are eaten fresh and generally not used as an ingredient for cooking. However, Post has noticed that some retailers provide recipes to encourage use of apples as an ingredient. South China fans prefer medium size 100's (per 42-lb. box) while the rest of China prefers bigger 72's or 80's. Apples are usually purchased out of preference for a certain variety.

Red delicious has a unique shape with a long-chin in attractive shiny red wax and a favorite snacking apple for many western consumers because it is crunchy with a mildly sweet flavor. They are harvested in September and October. Available year-round in Guangzhou and Shenzhen, it is regarded as a perfect gift to friends and relatives for its deep red color and shiny surface due to waxing. *Red's* are used for religious or ancestral offerings on the first and fifteen of every month according to the lunar calendar at home or at temples. In South China, this variety can be found in almost every retail format including hypermarket, supermarket and fruit stalls. Some insiders believe current demand for red delicious has reached maturity in this region, but continued promotion is critical.

Golden Delicious has firm, white flesh and sweet crisp flavor. In the States, it is the preferred "all purpose" cooking apple since it retains its shape and rich, mellow flavor when baked or cooked. *Golden Delicious* is very good in fresh salads and freezes well. However, there is not much demand for this variety in South China.

Granny Smiths have crisp, mouth-watering tartness. Bright green, extremely tart, crisp, juicy and versatile, Granny Smith is available in South China from September through April, although this variety is not officially allowed access to the Chinese market through legal procedures. Sales volume is small, compared with Red Delicious. However, it is regarded as a good variety to enrich shelf display by many South China retailers as the color is solid green.



Waterfall displays of Grade A Fuji from Shandong Province
(Source: ATO Guangzhou)

Galas have pinkish-orange stripes over a yellow background, the signature of this crisp, aromatically-sweet apple. Gala is a good size for snacking and one of the favorites for South China consumers. In the States, they are also used for salads, baking and for making apple sauce. In China, they are eaten fresh. This variety's harvest is from mid-August through early-September. Galas are available in South China from late August through next year April. The variety has enjoyed a growing positive reputation in South China. Many people prefer the taste of U.S. *Gala* to those from Chile and New Zealand. However, competition from Chile and New Zealand cannot be ignored. China also produces this variety, however, the taste and appearance is not as good as imported products.

2. Apples from the Southern Hemisphere -- Chile and New Zealand.

Apples from Chile are available from March to September in South China. Traders increasingly import Chilean *Galas* and Chilean *Granny Smiths* then. This affects imported volumes of U.S. *Gala's* and *Granny Smith's* where there's an overlap. It normally takes about a month for Chilean apples to be shipped from the ports of Valparaiso or San Antonio to China.

Meanwhile, New Zealand *Gala* is also available from March in South China. Apples from the Southern Hemisphere are usually cheaper than U.S. apples. However, as the U.S. season is the opposite of South Hemisphere countries, in general, there is no direct competition in autumn and winter. New varieties like *Queen*, *Pacific Rose*, *Beauty* from New Zealand are also gaining popularity. Most container shipments from New Zealand, mostly from the port of Napier, normally take two weeks to China.

Normally, Chinese traders purchase fruit from all overseas suppliers (U.S., Chilean and New Zealand) using letters of credit or plunk down a deposit with final payment upon arrival or pay in advance if it wants to secure scarce quality supplies. However, since Chile has proportionally big and growing supplies and needs to sell quickly as it does not have controlled atmosphere (CA) storage that allows them to sell year 'round like the Americans, Chilean exporters will sell to Chinese traders on consignment. This means shippers will quote a lowest price. The importer bears the loss if apples are sold below this price; if above, the importer shares the profit with the shipper. The more flexible payment terms encourage Chinese traders to import more Chilean product.

3. China's apple supply.

In addition to imported apples from Chile and Australia, Chinese apples are available almost year round. Since South China has a hot climate, it has almost no production of apples. However, with improved infrastructure development, domestic supply from Shandong and Shaanxi provinces are transported to the South, mostly *Fuji's*. There are also other choices: *Red Star*, *Qinguan*, *Huanui* (which resembles *Red Delicious*), *Huang Jiao* (also known as *Yellow Banana* and resembles *Golden Delicious*), *Qingpingguo* (also known as *Green Apple* and resembles *Granny Smiths* but paler green), *Jinguan* and *Gala*. All these varieties are priced much lower than imported ones

Fuji's spicy, crisp sweetness and firm flesh make it an excellent fresh eating apple which is how Chinese consume them. In the States, they're used for baking or making applesauce and stores as well. In China, *Fuji's* key production areas include Shangdong, Shaanxi and Gansu. *Fuji* flavor improves in storage. *Fuji* skin color varies from yellow-green with red highlights to very red. It is a cross between *Red Delicious* and *Ralls Janet* varieties in Japan. Domestic *Fuji's* for the regular public can sell for half that of imported apples. This also limits sales of U.S. apples for the price conscious.



"Golden Star" and giant "Shijiediyi" or known as "Number One in the World" available in South China
(Source: ATO Guangzhou)

4. Other competitors. In South China, there are also apples from Japan, home of the *Fuji*. One of Japanese varieties called "*Shijiediyi*," or "No. 1 in the world" in Chinese, is as large as a giant grapefruit. During past special holidays, they have reached a high of US\$21 per piece at stores. Since this variety targets a niche market, sales volume is small.

Other competitors include other imported fruit such as table grapes, cherries and oranges as well as local tropical fruits available in the summer such as durian, mangosteen, lichee and mangos, not to mention domestic cherries, peaches, watermelon and pears.

Where apples are sold

South China is the most developed region for apple distribution channels. Chinese consumers prefer to buy fruits from a range of formats including modern retail outlets and traditional formats such as fruit shops and open air stalls as well as moving street vendors on tricycles.

1. Hypermarkets and supermarkets. The best venues for imported apples in South China are *Sam's Club*, *Olé* lifestyle store, *AEON Jusco*, *CR-Vanguard*, *Park 'n shop* as well as *Metro*. All have a sizeable fresh produce section, featuring a large variety of fresh fruits. These large retailers look for supplies available year 'round.

Over 80 percent of supermarket customers visit the produce department, and 75 percent end up buying something. Produce quality is the main reason a customer chooses one supermarket over another.

Apples are the heart of the produce category, and Washington apples are the leading worldwide apple brand. Washington apples consistently provide top category sales, setting the tone for an entire department.

Most supermarkets and hypermarkets offer both bulk and pre-pack fruit and combination bags. Bins are often used to position seasonal/ promotional items at the front of the store and the front of the produce department. These supermarkets and hypermarkets have learned to create an "apple destination": they keep the apple category out in front and show customers an image of quality by keeping the category clean and organized the entire day. In fact, more and more hypermarkets have refrigerated counters to display fruits. They also apply color breaks to attract traffic. Surveys have shown that over half of all purchases are made on impulse. How to stimulate this impulse for apples is a hot issue for these retailers.



*U.S. Red Delicious among Chilean and Chinese apples at a retail store in South China
(Source: ATO Guangzhou)*

Retailers have begun to carry organic produce items in recent years, and shelf space doubled this year. Over 95 per cent of organic products sold in South China are locally produced fresh produce. There are some imported organic products at high-end stores sourced from Taiwan, Japan and Europe, but rarely from the United States.

In addition, hypermarket and supermarkets are ideal venues for launching in-store American Food Festivals. In South China, Guangzhou and Shenzhen are the most developed areas.

2. Fruit stands. They fill gaps left by convenience stores, which rarely carry more than one or two types of fruit. Fruit stands and open-air stalls have always been prosperous in South China despite rapid expansion of modern retailers. China's high urban population densities are likely to support their continued existence.

Many consumers still believe apples sold here are fresh, directly from a wholesale market on a daily basis. Small size and independent ownership allows these shops to adapt to individual locations such as apartment complexes and adapt product selection to match individual consumers.

Imported varieties are available. Since sales are boosted by the tradition of giving gifts when visiting friends, most fruit stands will even wrap fruit baskets to order. However, they are generally regarded as poor venues for imported products, as they are generally price driven, poorly regulated and lack the means to store fruit properly.

3. Moving street vendors mostly sell domestic apples and other fruits. Sometimes, they sell imported apples and cherries, but in limited quantities.

4. Emerging produce chain stores in communities offer gift packs, bulk and pre-pack fruit. Displays can be smaller but produce quality is critical.

5. Internet online ordering and delivery is an emerging trend. Selected specialized fruit trade websites also offer online shopping of gift-packaged apples. China has already overtaken the States in 2007 with 189.4 million internet users, a 221 percent jump in five years time, but the practice of on-line purchase is much lower. This trend may take years to become popular as South China consumers still prefer to personally buy fresh.

How U.S. apples are marketed and promoted

Post talked with *U.S. Washington Apple Commission* representatives, local retailers and traders who stated that in order to market U.S. apples successfully, shippers, importers, distributors and retailers need to follow handling and marketing instructions carefully to minimize loss and damage.

Storing. Apples keep longest in cool conditions (3C / 36F), which are well-ventilated, dark and slightly humid. Apples ripen six to ten times faster at room temperature than when refrigerated. If refrigeration is not available, a good option is to store product in a shed or garage, in plastic bags to retain moisture - leave a 2cm (1in) hole in each bag to allow some ventilation.

Display. Large, eye-catching displays draw customers using the Christmas, Mid-Autumn Festival, Spring Festival and American food festival themes. Attractive displays may be created using large ceramic pots, baskets, wooden crates or pallets for a wholesome, "natural" look that reinforces the healthy image of produce. The amount displayed should match what's expected to be sold in the same day.



*Washington Apple Commission ad at the Jiangnan Fruit and Vegetable Wholesale Market
(Source: ATO Guangzhou)*

Sampling. Sampling is especially effective in introducing new products, or reintroducing old favorites. It also provides opportunities for personalized contact, enhances cross-merchandising efforts and, most importantly, stimulates immediate as well as longer term sales.

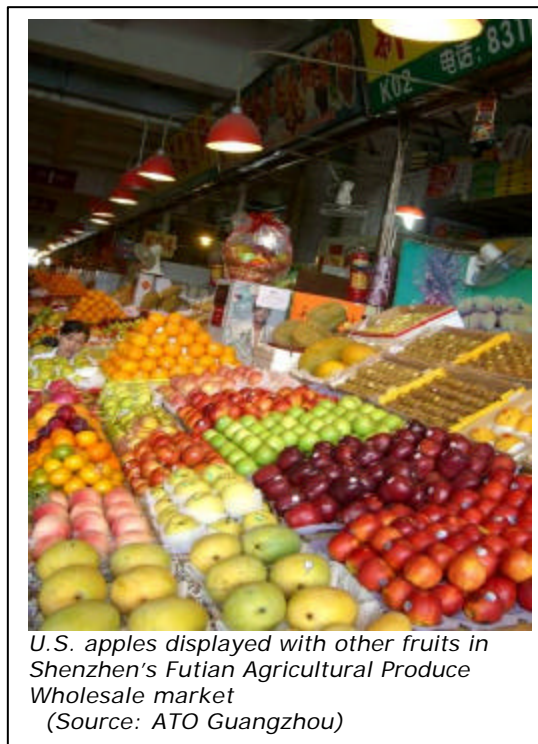
Handling. Consumers expect the best when they pay more so good rotation practices are key – they shouldn't have to sort through product. Customers will always take the freshest available product they have access to.

Old stock needs to be placed on top and never at the bottom so that the first in is the first out. Stock needs to be rotated side-to-side and back to front. Apples must be cushioned at the bottom with a pulp tray and other soft materials.

Apples must always be carefully handled, as they are fragile and susceptible to bruising. Damaged and decaying produce must be removed and sold separately or throw out. Water should not be sprinkled on apples as it causes them to lose crunchiness and taste.

Promotions. Competing in the apple market requires careful planning and a clear market strategy. Long term cooperation is the goal. Large retailers require consistent supply and quality. Instore promotions which include samples are one of the most effective ways to promote apples from United States. USDA Agricultural Trade Offices (ATOs) in China are good resources. *(Refer to list of Agricultural Trade Offices, page 14)*

For example, in early December 2008, representatives of the *Washington Apple Commission*, (WAC) in China arranged a national training seminar and promotion program involving six retailers around the country. Among them, three were in South China: *Wal-Mart*, *Jusco* and *Park 'n Shop*. In South China, there are 42 *Wal-Mart*, 35 *Park n' Shop* and 13 *Jusco* stores. Similar sessions were conducted in Shanghai and Beijing, but with different retailers. *(Note - WAC is governed and funded by growers who pay a mandatory assessment against all fresh apple shipments. The Director of Agriculture approves the budget and sits on the Board of Directors. WAC's purpose is to advertise, promote, educate and develop the market for the Washington fresh apple crop.)*



*U.S. apples displayed with other fruits in Shenzhen's Futian Agricultural Produce Wholesale market
(Source: ATO Guangzhou)*

Logistics management. U.S. apples are collected during the harvest season, then packed and stored in cooling conditions. Before loading to a ship container, apples are required to be kept under cold treatment for 45 days. Then it takes two to three weeks to ship the containers to China ports.

Duties. Officially, the duties for direct apples shipment from U.S. to China include 10 percent tariff plus 13 percent VAT (value added tax). Generally, containers are shipped to Hong Kong, then transshipped to mainland China. On average Southern Chinese traders pay US\$7,142 as handling package fee per container. The handling fee varies in different seasons.

Chinese importers or wholesalers sell apples to distributors. Then, chain stores purchase produce items through their Chinese distributors. *(Refer to Appendix – Logistics Path for Fresh Apples, page 15)*

Specialized wholesale markets have seen increasing trading volumes of fresh apple varieties. *Jiangnan Fruit and Vegetable Wholesale Market* is known as one of the largest wholesale markets in China for fruit and vegetable trading. Each year on average, it handles 5.0 million tons of fruit and vegetables valued US\$ 2.0 billion. Over 30 fruit importers set up branch offices here. Many key apple importers or traders are not familiar with customs clearance formalities so they usually hire agents to execute import clearance.

Distributors and traders from all over China visit *Jiangnan Wholesale Market* and arrange shipment of apple products by trucks bound for retailers, restaurants and hotels as well as fruit stands. Secondary fruit wholesale markets are always incorporated in local agricultural product wholesale markets. For example, in Shenzhen, there are two wholesale markets: *Shenzhen Buji Agricultural Produce Wholesale Market* and *Futian Agricultural Produce Wholesale Market*. Traders in these markets visit *Jiangnan Market* regularly buy imports.

Emerging new wholesale markets aggressively pursue a greater share of the produce business from Jiangnan. But they would find it hard to replace *Jiangnan* in the next three to five years, given the latter's well-established operations, logistics network that crisscrosses the country, and availability of a full range of varieties imported through both official and grey channels. Diversified distribution such as specialized distribution centers, outlets and chain stores spur sales. Trading companies and industry groups accelerate marketing efforts.

Cold chain. It is the distributors' responsibility to keep fruits fresh until retailers receive product in good condition. And it is retailers' responsibility to provide fresh fruits to their customers. Therefore, cold chain management becomes more important during the whole process. However, so far, cold chain management is lacking. Not all trucks for transshipping fresh fruits have cold chain facilities.

IPR protection. Few Chinese consumers pay attention to origin issues. Few can tell the difference between genuine labels of U.S. origin apples from false ones. In some emerging markets, the Chinese Huanieu that looks like a *Red Delicious* had a Washington apple label. Counterfeits are widespread in these markets, and where a brand name adds value, it is certain to be copied. As a result, there is less room for marketing and promotion of imported products. As for trade, Chinese clients need to be visited regularly to maintain good relationships and show appreciation. These contacts will help exporters understand regional and city markets.



At a typical neighborhood fruit store in Guangzhou.
(Source: ATO Guangzhou)

Conclusion

Although Washington apples have long enjoyed a good reputation in South China, it is critical to keep promoting its image and work closely with retailers. Innovative packaging, new varietal development and reasonable price positioning are key to maintain market share, given fierce competition by Chinese apples. Solid promotion has helped to capture a middle and upper income consumer base, pretty much immune to the global economic slowdown when it comes to apples. Traders are open to new varieties such as Washington's *Honey Crisp*. Opening the Chinese market to all varieties is critical to the future of U.S. apples.

Post Contact Information

For further information about the China market, as well as updates on upcoming events and activities, visit our website at www.usdachina.org or contact the following:

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Agricultural Trade Office (ATO), Shenyang (office to open 2009)

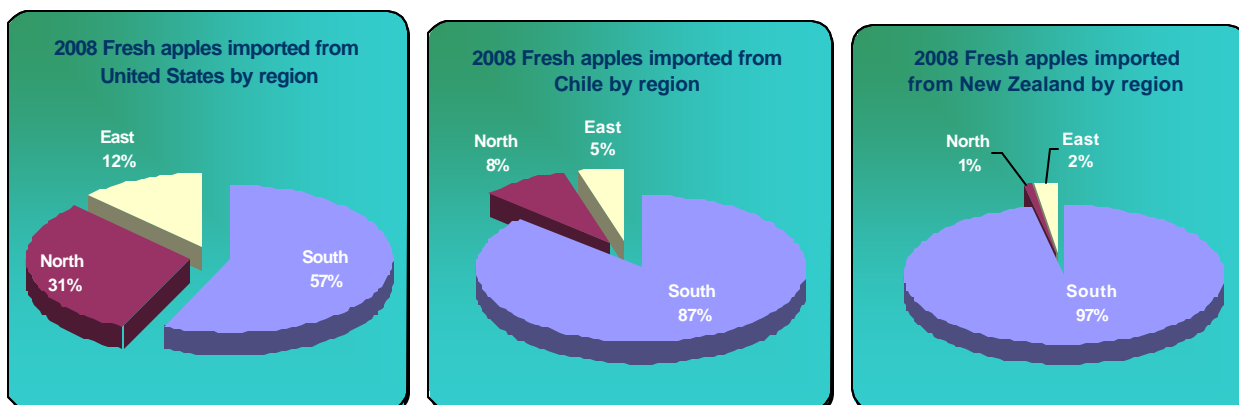
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Other related GAIN reports

1. Fresh Deciduous Fruits Annual-- CH8108, dated November 26, 2008
2. South China, Vibrant Gateway for China's Imported Fruit -- CH7610, dated June 10, 2007

Appendix

Table 1. 2008 China imports of fresh apples by country and region (US\$ million)

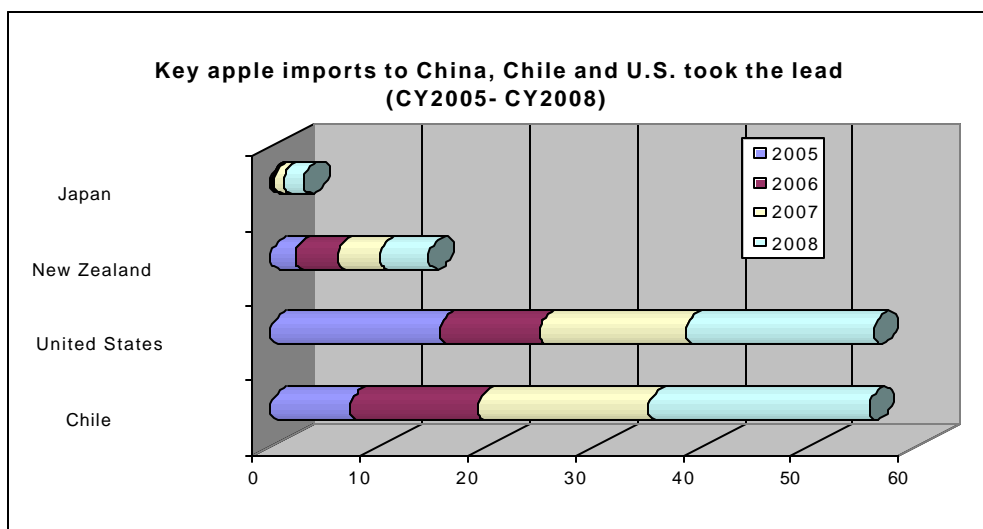


Region	U.S.	Chile	N.Z.
South	9.84	17.69	4.46
North	5.38	1.73	0.04
East	2.15	0.93	0.12
Total	17.37	20.34	4.62

(Source: ATO Guangzhou, China Customs)

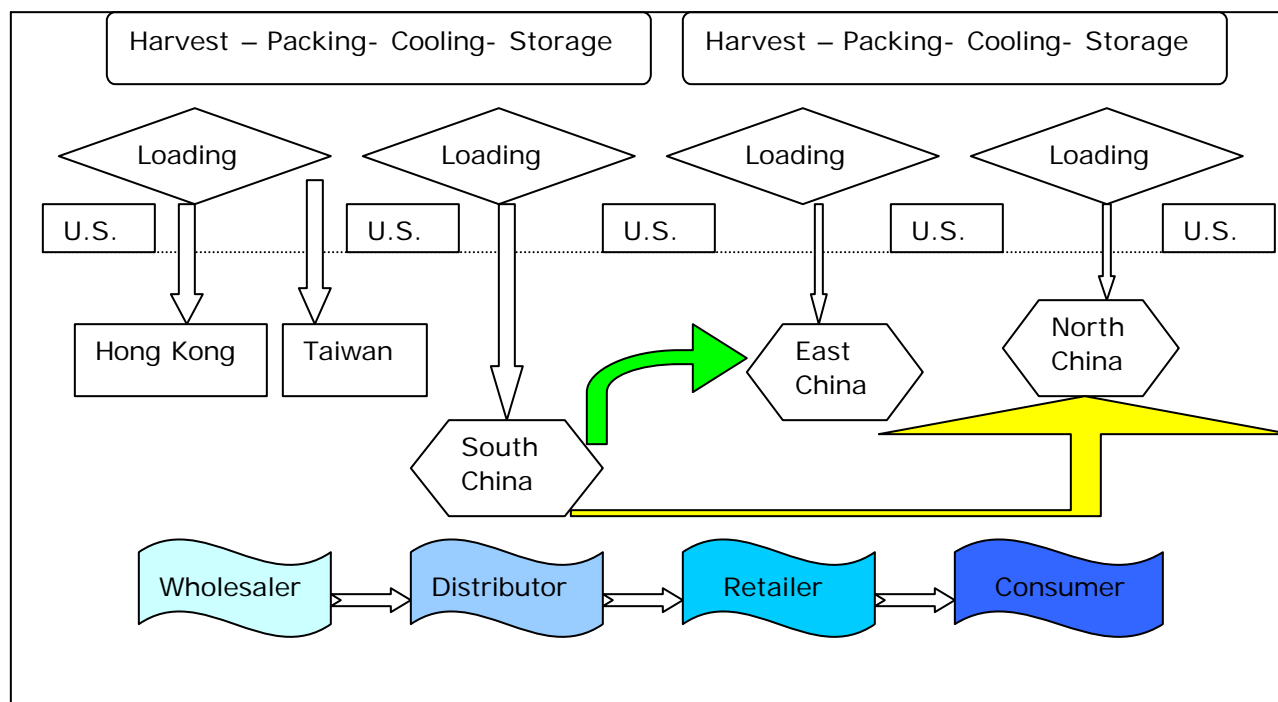
Table 2. Total apple imports to China, Chile and U.S. took the lead (US\$ million)

Country	2005	2006	2007	2008
Chile	7.39	11.81	15.92	20.34
United States	15.70	9.22	13.61	17.37
New Zealand	2.21	3.95	3.91	4.62
Japan	0.11	0.23	0.83	1.92



(Source: ATO Guangzhou, China Customs)

Table 3. Logistics path, from American orchards to Chinese consumer



(Source: ATO Guangzhou)

Table 4. Major Apple Varieties Available in South China (by origin)

Origin	Variety	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
U.S. Washing- ton State	*Red Delicious												
	*Granny Smith												
	*Gala												
Chilean	*Granny Smith												
	*Gala												
New Zealand	*Granny Smith												
	*Gala												
	*Rose												
	*Queen												
Chinese Apples	*Gala												
	*Fuji												
	*Red Star												
	*Qinguan												
	*Huanu (1)												
	*Ji Guan												
	*Qing Pingguo or Green Apple (2)												

(Source: ATO Guangzhou) (1) Similar to Red Delicious; (2) similar to Granny Smith